



ARIZONA STATE RETIREMENT SYSTEM

3300 NORTH CENTRAL AVENUE • PO Box 33910 • PHOENIX, AZ 85067-3910 • PHONE (602) 240-2000
7660 EAST BROADWAY BOULEVARD • SUITE 108 • TUCSON, AZ 85710-3776 • PHONE (520) 239-3100
TOLL FREE OUTSIDE METRO PHOENIX AND TUCSON 1 (800) 621-3778
EMAIL ADDRESS: ASKMAC@AZASRS.GOV • WEB ADDRESS: WWW.AZASRS.GOV

Paul Matson
Director

MINUTES OF A MEETING OF THE ARIZONA STATE RETIREMENT SYSTEM OPERATIONS COMMITTEE

HELD ON
Thursday, October 28, 2010
10:30 a.m., Arizona Time

The Operations Committee (OC) of the Arizona State Retirement System (ASRS) met in public session in the 14th Floor Conference Room of the ASRS Office, 3300 North Central Avenue, Phoenix, Arizona 85012. Mr. Steven Zeman, Chair, called the meeting to order at 10:34 a.m.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Steven Zeman, Chair
Mr. Tom Manos, Vice-Chair
Mr. David Byers
Mr. Kevin McCarthy

A quorum of the Committee was present for the purpose of conducting business.

2. Approval of the Regular and Executive Session Minutes of the August 26, 2010 OC Meeting

Mr. Zeman noted the minutes were updated with a correction to remove a clerical note, and the second item under the Future Agenda Items section of the August 26, 2010 minutes should have indicated a request for an update of how much assessment has been produced on Employer self-audits.

Motion: Mr. David Byers moved the regular and executive session minutes of the August 26, 2010, OC meeting be accepted as amended. Mr. Tom Manos seconded the motion.

By a vote of 4 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

3. Presentation, Discussion and Appropriate Action Regarding the ASRS PRIDE Initiative

Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, introduced Ms. Shaina Solochek, Management Analyst, who presented an update of the ASRS PRIDE Initiative to the

Committee. Ms. Solochek gave a historical overview of the initiative followed by a list of recent accomplishments in the areas of Public Image, Service Excellence and Work Environment. She also presented several charts indicating improvement in employee and member satisfaction with the ASRS. Ms. Solochek then briefly listed future plans for PRIDE and the areas of focus for Fiscal Year 2011.

4. Presentation, Discussion and Appropriate Action Regarding the Financial Services Division Annual Update

Mr. Guarino introduced Ms. Tamera Wilson, Membership Accounting Program Manager, Ms. Tracy Rundle, Benefits Accounting Program Manager, and Ms. Rochelle Witharana, Controller, who presented an update on the Financial Services Division (FSD) to the Committee. Ms. Rundle, Ms. Witharana, and Ms. Wilson each gave an overview of their respective unit's responsibilities followed by a list of the unit's prior year's initiatives, performance objectives, and a list of noteworthy accomplishments each made in the past year. Ms. Wilson then discussed the 2011 initiatives for FSD.

5. Review of Recently Conducted Audits

- **Private Equity Investments**
- **Arizona State University**
- **Riverside Elementary School District**

Mr. Bernard Glick, ASRS Chief Internal Auditor, presented the Committee with several recently completed audits.

The first audit was on the ASRS Private Equity (PE) Investment Portfolio. Mr. Glick presented several findings from the audit noting: 1) that effective policies and procedures for control and monitoring were in place, 2) PE Standard Operating Procedures (SOP) need more effective monitoring to ensure consistent compliance, revisions to clarify certain control areas and to improve authorized signature pages, 3) recording of PE Committee meeting minutes should be sufficiently documented so that decisions reached and records of meetings times required by policy are clear and concise, 4) the general partner should be reminded that ASRS contracts require a minimum five-business day lead time on capital calls, 5) the back office function of archiving documents applicable to all current fund managers needs improved monitoring, and 6) documents that are not clear and concise should not be signed.

The second audit dealt with Arizona State University (ASU). Mr. Glick stated ASU did not report ASRS contributions for 148 faculty employees, 48 student employees, and 45 part-time employees who were eligible in Fiscal Year (FY) 2008. Additionally, ASU had 188 employees who were contributing at other ASRS employers in FY 2008. Mr. Glick also noted ASU did not report contributions for 23 employees who received supplemental pay and three employees who had award pay in FY 2008 as well as not reporting accurate contributions for 51 ASRS member employees in FY 2008. Mr. Glick said ASU owed the ASRS \$1,256,238 as well as \$1,150,000 ASU had discovered after a self-audit of FY 2007.

The third audit was on the Riverside Elementary School District (District). Mr. Glick said there were four findings from the audit. First, the District did not remit ASRS contributions for three retirees who had worked or had been engaged to work 20 or more hours for 20 or more weeks within the first 12 months subsequent to termination for retirement. Next, the District did not

remit ASRS contributions for 10 employees who were engaged to work at least 20 hours per week for at least 20 weeks in one or more fiscal years and did not remit ASRS contributions on all eligible compensation for seven employees. The third finding was the District did not ensure that all retirees returning to work complied with the requirement that they acknowledge statutory provisions in writing within 30 days of returning to work. The last finding was the District did not comply with all statutes regarding health insurance supplements. Mr. Glick said the District owes the ASRS \$34,090, while the ASRS owes the District a \$2,580 refund for health insurance supplements.

6. Presentation, Discussion and Appropriate Action Regarding an Internal Audit Quarterly Update

Mr. Glick presented a spreadsheet containing the summary of internal audits through the period ending September 2010. The spreadsheet listed the audits, the hours budgeted, and estimates of how many hours were used to perform the audits. Mr. Glick noted various audits and reporting that had occurred in the first quarter of the fiscal year.

7. Presentation, Discussion and Appropriate Action Regarding Community Property and Spousal Notification/Consent

Mr. Guarino introduced Ms. Lesli Sorensen, Government Relations Officer, who addressed the Committee regarding community property rights to members' spouses. Ms. Sorensen noted that when a member/retiree dies, the ASRS intends to institute a new procedure with respect to community property. The ASRS will begin disbursement of the account balance to the beneficiary, but if a current, non-beneficiary spouse asserts a community property right, the ASRS will disburse the community property percentage of the benefit (50% of the value of the benefit accrued during the marriage) to the spouse. She said the new procedure is in response to a recent non-precedent-setting ruling of an Arizona Administrative Law Judge that was accepted by the ASRS Board. She said in these cases a letter would go out to the beneficiary stating that a percentage of the account had been distributed to a spouse because a community property right had been asserted, but that the beneficiary has appeal rights if he or she believes the community property laws are not applicable.

Ms. Sorensen then introduced Ms. Lisa King, Policy Analyst/Member Advocate, who addressed the Committee regarding the difficulties expected if the ASRS changes procedures and attempts to contact a non-beneficiary spouse when a member revokes the spouse as beneficiary, fails to name the spouse as a beneficiary, or rescinds or reverts a Joint and Survivor or Period Certain annuity option and the spouse is named beneficiary. Ms. King listed several options on how to determine if a member or retiree has a spouse and how notification would occur, but explained that administrative challenges are present with each option and there would be no guarantee of success. Ms. King stated that regardless of notification, a spouse would still have community property rights.

After a discussion on spousal notification, types of notification, and possible legislative actions, the Committee agreed to maintain the status quo but requested staff continue to review possible administrative and legislative options regarding spousal notification.

8. Presentation, Discussion and Appropriate Action Regarding Public Records

Ms. Sorensen addressed the Committee regarding the ASRS policy on how public records requests are handled. She gave a brief overview of the current policy and said staff was recommending no changes to the current policy at this time. Further, she recommended not moving forward with legislation at this time stating there would be time to include legislation for the next session of the Arizona Legislature should the Committee or ASRS Board wish to proceed after considering the issue after the next few months. The Committee had a discussion on data released, private versus commercial use of the data, types of potential legislation, and what data other states release to the public.

9. Request for Future Agenda Items

Mr. Zeman requested an update of how much assessment has been produced on Employer self audits.

Mr. Zeman requested a revisit of public records issues at a future date.

Members of the Committee requested a revisit of the Spousal Consent issue as necessary.

10. Call to the Public

No members of the public addressed the Committee.

11. Adjournment of the OC

Mr. Steven Zeman adjourned the meeting at 12:47 p.m.

Respectfully Submitted by,

Zachary Kucera
Committee Secretary

Date

Anthony Guarino
Deputy Director and Chief Operations Officer

Date